

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2257-01
Bill No.: HB 1015
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: April 14, 2015

Bill Summary: This proposal would reduce the state sales tax rate by 0.1% if the total amount of net state revenue collected has increased by seventy-five million dollars in each of the three previous fiscal years.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented
General Revenue *	(\$53,784) or (\$65,581,784)	\$0 or (\$65,528,000) to (\$131,056,000)	\$0 or (\$65,528,000) to (\$196,584,000)	(\$327,640,000)
Total Estimated Net Effect on General Revenue Fund *	(\$53,784) or (\$65,581,784)	\$0 or (\$65,528,000) to (\$131,056,000)	\$0 or (\$65,528,000) to (\$196,584,000)	(\$327,640,000)

* Fully implemented impact could occur as soon as FY 2020.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented
Road *	\$0 or (\$10,229,000)	\$0 or (\$10,229,000) to (\$20,458,000)	\$0 or (\$10,229,000) to (\$30,687,000)	(\$51,145,000)
Total Estimated Net Effect on <u>Other</u> State Funds *	\$0 or (\$10,229,000)	\$0 or (\$10,229,000) to (\$20,458,000)	\$0 or (\$10,229,000) to (\$30,687,000)	(\$51,145,000)

* Fully implemented impact could occur as soon as FY 2020.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2015	FY 2016	FY 2017	Fully Implemented
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on FTE	0	0	0

- ☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive agency responses in a timely manner due to the short fiscal note request time. Oversight has prepared this fiscal note with the best current information that we have, or with prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will prepare an updated fiscal note and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning** assume this proposal would have statewide impact and would impact the calculation required under Article X, Section 18(e) of the Missouri Constitution.

BAP officials noted the proposal would reduce the sales tax rate by 0.1% each time the "total amount of net revenue collected by the state" increased in each of the last three fiscal years. The sales tax rate could not be reduced by more than 0.5%.

BAP officials also note that at the 3%-rate, \$1,969 million was collected in sales tax in FY 2014, so each 0.1%-reduction could reduce Total State Revenues (TSR) by \$74.9 million and General Revenue by \$65.6 million. The proposal would reduce TSR, including the sales tax on motor vehicles, by \$374.5M and GR by \$328.2M once fully implemented.

BAP officials noted that "total amount of net revenue collected by the state" is not defined, and assumed the phrase "total amount of net revenue" would refer to net General Revenue only. BAP officials stated under that definition, revenues did not grow by \$75 million in FY 2014 and the earliest this bill could begin implementation would be FY 2018.

BAP officials provided the following table of fiscal impact by year of implementation.

Year	Sales Tax Rate	General Revenue Reduction	Motor Vehicle Reduction
1	2.90%	65.6	9.3
2	2.80%	131.3	18.5
3	2.70%	196.9	27.8
4	2.60%	262.6	37
5	2.50%	328.2	46.3

amounts in \$Millions

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** stated this proposal would remove the fixed four percent state sales tax rate from current sales tax provisions and would, beginning in FY 2017, require the department to reduce the sales tax rate by one-tenth of one percent if net revenue increased in each of the previous three fiscal years by \$75 million. The legislation would limit the reductions to one-tenth of one percent per fiscal year and to five total reductions, to achieve a one-half percent reduction in the state sales tax rate.

The department assumes the term "net revenue" is not limited to revenue collected under Chapter 144 and is net revenue after all refunds and credits; because net revenue collections did not increase by at least \$75 million in FY 2014, the first time the proposal would result in a rate reduction would be in FY 2018.

Fiscal impact

DOR officials stated in FY 2014, \$1,965,844,886 was collected in General Sales Tax.

Total tax collected in FY 2014	\$1,965,844,886
Current tax rate	3 percent
Total sales tax base in FY 2014	\$65,528,196,200
Proposed tax rate reduction	one-tenth percent
Estimated reduction in sales tax	\$65,528,196

DOR officials estimated this proposal would result in a loss of \$65,528,196 in General Sales Tax collected in FY 2018 and $(\$65,528,196 \times 2) = \$131,056,392$ in FY 2019.

DOR officials stated in FY 2014, \$405,353,572 was collected in Motor Vehicle Sales Tax.

Total tax collected in FY 2014	\$405,353,572
Current tax rate	4.225 percent
Total sales tax base in FY 2014	\$9,594,167,385
Proposed tax rate reduction	one-tenth percent
Estimated decrease in sales tax	\$9,591,167

DOR officials estimated this proposal would result in a loss of \$9,591,167 in Motor Vehicle Sales Tax in FY 2018 and $(\$9,591,167 \times 2) = \$23,261,979$ in FY 2019.

ASSUMPTION (continued)

Administrative impact

DOR officials assume Motor Vehicle Bureau procedures would need to be revised by a Management Analyst Specialist I requiring 40 hours at a cost of \$840 in FY 2018, and testing for identified system modifications would need to be done requiring forty hours for each system modification for a total of 200 hours by a Management Analyst Specialist I at a cost of \$4,200 in FY 2018. The Department's web site would need to be updated, requiring 10 hours for an Administrative Analyst III, at a cost of \$230 in FY 2018.

Oversight notes the DOR estimated administrative costs are relatively minor and assumes the costs could be absorbed with existing resources. If unanticipated costs are incurred or if multiple proposals are implemented that significantly increase the DOR workload, resources could be requested through the budget process.

IT impact

DOR officials assume this proposal would result in a need for system changes with a cost of \$53,784 based on 717 hours of contract programming at the current state rate for IT contractors.

Oversight will include the DOR estimate of IT cost in this fiscal note.

Oversight assumptions

Oversight notes this proposal would, for all fiscal years beginning on or after July 1, 2016, require the Director of the Department of Revenue to reduce the general sales tax rate by one-tenth percent if the total amount of net revenue collected by the state has increased in each of the three previous fiscal years. No more than one reduction could be made in a fiscal year and no more than five reductions could be made in total.

ASSUMPTION (continued)

Oversight assumes the first rate reduction required by this proposal could be made as of July 1, 2016 based on net revenue collected for the year ended June 30, 2015; however, Oversight is unable to determine if the three-year increase requirement would be met for the three years ending July 30, 2015. Accordingly, revenue reductions will be calculated for FY 2016, FY 2017, and FY 2018 and shown as \$0 or the indicated amount for those three fiscal years. The impact for FY 2017 and FY 2018, will be indicated as a range from the amount calculated for FY 2016 to the amount calculated for FY 2017 and FY 2018, respectively.

Oversight assumes the reduction would be applied to the 3% general sales tax rate that is deposited in the General Revenue Fund, or to Road Funds if the tax results from the sale of a motor vehicle. For the year ended June 30, 2014, reports from the Department of Revenue indicated the General Revenue Fund received \$1,965,845,886 and Road Funds received \$306,876,852, respectively, in sales tax revenues. Each one-tenth cent reduction in the sales tax rate would result in a revenue reduction of $(\$1,965,845,886 / 30) = \65.528 million (rounded) for the General Revenue Fund and $(\$306,876,852 / 30) = \10.229 million (rounded) for Road Funds.

Reducing the sales tax rate as proposed would result in revenue reductions for those funds as shown in the following chart.

	General Revenue	Road	Total
One tenth	\$65.528	\$10.229	\$75.757
Two tenths	\$131.056	\$20.458	\$151.514
Three tenths	\$196.584	\$30.687	\$227.271
Four tenths	\$262.112	\$40.916	\$303.028
Five tenths	\$327.640	\$51.145	\$378.785
Amounts in millions.			

ASSUMPTION (continued)

In response to a similar proposal in the previous session (HB 1948 LR 5864-01) officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assumed a similar proposal in the previous session (HB 1948 LR 5864-01) would not have a fiscal impact to their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017	Fully Implemented
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GENERAL REVENUE FUND

		\$0 or (\$65,528,000)	\$0 or (\$65,528,000)	
<u>Revenue reduction - DOR</u>				
Sales tax rate reduction	\$0 or	to	to	
Section 144.020 *	(\$65,528,000)	(\$131,056,000)	(\$196,584,000)	(\$327,640,000)

<u>Cost - DOR</u>				
IT cost	<u>(\$53,784)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *		\$0 or (\$65,528,000)	\$0 or (\$65,528,000)	
	(\$53,784) or	to	to	
	<u>(\$65,581,784)</u>	<u>(\$131,056,000)</u>	<u>(\$196,584,000)</u>	<u>(\$327,640,000)</u>

* Fully implemented impact could occur as soon as FY 2020.

<u>FISCAL IMPACT - State Government (Continued)</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017	Fully Implemented
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ROAD FUNDS

		\$0 or (\$10,229,000)	\$0 or (\$10,229,000)	
<u>Revenue reduction - DOR</u>				
Sales tax rate reduction	\$0 or	to	to	
Section 144.020 *	<u>(\$10,229,000)</u>	<u>(\$20,458,000)</u>	<u>(\$30,687,000)</u>	<u>(\$51,145,000)</u>

		\$0 or (\$10,229,000)	\$0 or (\$10,229,000)	
ESTIMATED NET EFFECT ON ROAD FUNDS *	\$0 or	to	to	
	<u>(\$10,229,000)</u>	<u>(\$20,458,000)</u>	<u>(\$30,687,000)</u>	<u>(\$51,145,000)</u>

* Fully implemented impact could occur as soon as FY 2020.

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which make purchases that are subject to the general sales tax.

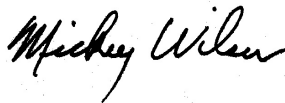
FISCAL DESCRIPTION

The proposed legislation would, for all fiscal years beginning on or after July 1, 2015, require the Director of the Department of Revenue to reduce the general sales tax rate by one-tenth of one percent if the total amount of net revenue collected by the state has increased in each of the three previous fiscal years. No more than one reduction could occur in a fiscal year and no more than five reductions may occur.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Revenue



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Director
April 14 2015

Ross Strobe
Assistant Director
April 14, 2015